

**REPORT OF THE AUDIT OF THE
WASHINGTON COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through April 15, 2011**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
WASHINGTON COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through April 15, 2011**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Taxes for the Washington County Sheriff for the period April 16, 2010 through April 15, 2011. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,807,811 for the districts for 2010 taxes, retaining commissions of \$159,298 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,646,137 to the districts for 2010 taxes. Taxes of \$0 are due to the districts from the Sheriff and refunds of \$0 are due to the Sheriff from the taxing districts.

Report Comment:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts And Disbursements

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2010 TAXES.....	3
NOTES TO FINANCIAL STATEMENT	4
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	9
COMMENT AND RECOMMENDATION	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable John Settles, Washington County Judge/Executive

Honorable Tommy Bartley, Washington County Sheriff

Members of the Washington County Fiscal Court

Independent Auditor's Report

We have audited the Washington County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011. This tax settlement is the responsibility of the Washington County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Washington County Sheriff's taxes charged, credited, and paid for the period April 16, 2010 through April 15, 2011, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 9, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable John Settles, Washington County Judge/Executive
Honorable Tommy Bartley, Washington County Sheriff
Members of the Washington County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts And Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 9, 2011

WASHINGTON COUNTY
TOMMY BARTLEY, SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period April 16, 2010 Through April 15, 2011

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 341,808	\$ 813,180	\$ 2,497,480	\$ 556,008
Tangible Personal Property	34,822	90,638	254,436	220,827
Fire Protection	887			
Franchise Taxes	14,703	37,503	107,362	
Additional Billings	92	233	674	150
Limestone, Sand and Mineral Reserves	8	16	57	13
Penalties	2,162	5,263	15,761	3,457
Adjusted to Sheriff's Receipt	415	1,071	(144)	(54)
Gross Chargeable to Sheriff	<u>394,897</u>	<u>947,904</u>	<u>2,875,626</u>	<u>780,401</u>
<u>Credits</u>				
Exonerations	703	1,657	5,133	1,143
Discounts	5,761	13,750	41,942	12,266
Delinquents:				
Real Estate	4,193	10,335	30,589	6,810
Tangible Personal Property	<u>3,355</u>	<u>8,704</u>	<u>24,512</u>	<u>20,164</u>
Total Credits	<u>14,012</u>	<u>34,446</u>	<u>102,176</u>	<u>40,383</u>
Taxes Collected	380,885	913,458	2,773,450	740,018
Less: Commissions *	<u>16,188</u>	<u>35,389</u>	<u>76,270</u>	<u>31,451</u>
Taxes Due	364,697	878,069	2,697,180	708,567
Taxes Paid	364,507	877,681	2,695,826	708,123
Refunds (Current and Prior Year)	<u>190</u>	<u>388</u>	<u>1,354</u>	<u>444</u>
Due as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

4.25% on \$ 1,928,723

2.75% on \$ 2,773,450

1% on \$ 105,638

The accompanying notes are an integral part of this financial statement.

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Washington County Sheriff maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2011
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Washington County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 14, 2010 through April 15, 2011.

Note 4. Interest Income

The Washington County Sheriff earned \$331 as interest income on 2010 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Washington County Sheriff collected \$18,894 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office. As of August 9, 2011, the Sheriff owed \$10,894 in 10% add-on fees to his fee account.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Settles, Washington County Judge/Executive
Honorable Tommy Bartley, Washington County Sheriff
Members of the Washington County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Washington County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, and have issued our report thereon dated August 9, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Washington County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Washington County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Washington County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

August 9, 2011

COMMENT AND RECOMMENDATION

WASHINGTON COUNTY
TOMMY BARTLEY, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 16, 2010 Through April 15, 2011

INTERNAL CONTROL – MATERIAL WEAKNESS:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts And Disbursements

The Sheriff's office has a lack of adequate segregation of duties over tax receipts and disbursements. The employee responsible for handling tax receipts also records the receipts in the ledger, prepares the bank deposit, and performs the monthly bank reconciliation. In addition, the employee prepares the disbursement checks, is an authorized signer on checks, and is not independent of purchasing and receiving functions. By the same employee performing these functions, the risk that inaccurate financial reporting and/or the misappropriation of assets going undetected increases. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should periodically perform surprise cash counts and recount cash. The Sheriff should document this by initialing the deposit ticket.
- The Sheriff should require dual signatures on all disbursement checks, with one required signature being that of the Sheriff.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: None.

